





"We were planning to do somewhere between 10 and 15 projects immediately and we wanted to set up a financing mechanism that would encompass all of the projects without having to go out and look for financing each time. The Tax-Exempt Master Lease Purchase Agreement worked well for us."

Michael Pais Special Projects

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Financing Profile of Success The State of New Hampshire

State of New Hampshire—Stats at a Glance

Finance Vehicle	Tax-exempt master lease purchase agreement	
Program Director	Michael A. Pais	
Financing	Total amount financed	\$ 18-25 million
	Investment per square foot	\$ 3.25-4.55/sf
	Financing term	10 years
Cost Savings	Anticipated annual positive cash flow	\$ 0 (cash neutral)
	Simple payback period	6-8 years
	Estimated dollars per year	\$3-4 million
Energy Savings	Anticipated annual energy savings	25-33 million kWh
Pollution Prevention	Annual CO ₂ emissions	37-48 million lbs.
	Car pollution equivalent	3,680-4,860 cars

Focus: This profile showcases how a state government overcame its reluctance to use third-party financing to pay for energy upgrades.

Mandate For Efficiency

In 1997, Governor Jeanne Shaheen established the New Hampshire Building Energy Conservation Initiative (BECI) to promote the evaluation and installation of energy and resource efficient measures, where economically feasible, in over 500 state-owned buildings. The Governor's Office of Energy and Community Services (GOECS) implements the initiative.

History/Background/Taking Action

Four years earlier, the Legislature had authorized the state's use of performance contracting to implement energy conservation measures with payback periods up to 6-8 years. After discussions with energy services companies (ESCOs) and finance professionals, Michael Pais, GOECS Special Projects Coordinator, determined that by separating the financing activity from the technical performance obligations under a performance contract, the state could obtain lower cost financing than if it bundled financing into the overall agreement typically offered by ESCOs. Lower cost financing translates into

installation of a greater range of energy efficient equipment and a greater number of projects that can meet the 6-8 year payback requirement. A performance guarantee from an ESCO would ensure that the state realizes energy cost savings.

Finding The Best Finance Option

In late 1998, GOECS officials felt certain that a tax-exempt master lease program (MLP) would provide cost-effective financing for performance contracts. However, New Hampshire's Treasury Department expressed reservations, believing the state's creditors would consider the master lease as additional debt, with potentially negative impacts on the state's credit rating. After a year of reviewing similar programs, all parties agreed that the non-appropriation language of the MLP would keep the master lease funds off the state's debt ledger. The Treasury Department indicated that the rating agencies that guide the state's creditors do consider MLPs when evaluating the state's financial health. However, these agencies also consider that (1) lease payments are generated from the energy savings;

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(2) creditworthy ESCOs guarantee equipment performance; and (3) lower energy costs improve the state's overall cash flow. New Hampshire's credit rating did not change after establishing the energy conservation MLP.

The state then secured a financial services provider. The request for proposal (RFP) was sent to approximately 50 financial groups in November 1999, and nine organizations responded. New Hampshire ultimately signed a master lease agreement with CitiCorp in February 2000.

The agreement calls for an initial credit line of \$18 million, with options for an additional \$7 million. Energy efficiency projects may be covered by 5-, 7-, or 10-year leases, and interest costs will be indexed to US Treasury bills of the same maturities. The MLP is administered jointly by the New Hampshire Treasury Department and the Department of Administrative Services. GOECS will continue to act as a consultant to state agencies for developing energy conservation projects.

Master Lease Program Coverage

The MLP provides funds for equipment, installation, and engineering costs. Lease costs are repaid from the energy savings. To ensure timely payment, the state is setting up a special utility budget account for making lease payments. Under the current arrangement, savings that exceed lease payments will revert to the state's general fund. Options are being considered to allow agencies that do the work to keep a portion of the excess funds.

Bridging The Gap Between Finance and Operations Officials

Over the past 2 years, Michael Pais and his colleagues have succeeded in addressing the concerns of two very different groups: facility managers and financial professionals. Their efforts overcame reasonable reservations on both sides about unfamiliar concepts such as guaranteed savings performance contracting and tax-exempt master lease purchase agreements. To increase comfort levels even further, Mr. Pais and his colleagues recommended incorporating flexibility and safety factors into financial projections to allow for unforeseen developments, such as construction delays, higher market interest rates, or lower fuel prices, which can affect the repayment period of the financial project.

New Hampshire anticipates using performance contracts to implement a wide range of energy improvements, including energy efficient HVAC systems, electric motors, lighting equipment, heat recovery systems, variable speed drives, energy management systems, and windows. The first upgrade project, which began in Summer 2000, involves multiple buildings at the New Hampshire Technical Institute in Concord. GOECS is also spearheading an effort to aggregate the resources of local governments, schools, and other entities in New Hampshire so that they, too, may enjoy the benefits of MLP financing for energyefficient equipment upgrades.

Lessons Learned from the State of New Hampshire

- Lower cost financing translates into installation of a greater range of energy-efficient equipment and a greater number of projects that can meet the state's 6-8 year payback requirement.
- State officials realized that a taxexempt master lease purchase agreement costs less to the taxpayers. The alternative projects that bundle financing with equipment and installation costs more.
- The state's Treasury Department was persuaded that the state's creditors would not consider a master lease additional debt and that the master lease would have no negative impact on the state's credit rating.